

**Financial Statements of the
HOUSING AUTHORITY OF
SOUTHEASTERN UTAH
Moab, Utah**

For the years ended June 30, 2006 and 2005

**Including
Independent Auditor's Reports,
Management's Discussion and Analysis, and
Supplemental Information**

Housing Authority of Southeastern Utah

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Baird, Rasmussen Associates, PC

Certified Public Accountants and Business Advisors

Independent Auditor's Report

To the Board of Commissioners
Housing Authority of Southeastern Utah
Moab, Utah

We have audited the accompanying statements of fund net assets of the Housing Authority of Southeastern Utah (the Authority), as of and for the year ended June 30, 2006, and the related statement of revenue, expenses and changes in fund net assets and statement of cash flows for the year then ended, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Authority as of June 30, 2005 were audited by other auditors whose report dated, March 20, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. The accompanying Financial Data Schedules, included on Schedules 1 and 2 listed in the table of contents as supplementary information, are not a required part of the basic financial statements, but are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Baird, Rasmussen & Associates, P.C.

Baird, Rasmussen & Associates, P.C.
Bountiful, Utah
September 26, 2006

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH
Management's Discussion and Analysis
Year Ended June 30, 2006**

INTRODUCTION

The Housing Authority of Southeastern Utah (the Authority) was created under the Utah Housing Authorities Act 9-4-61 and is a Utah Non-profit Corporation. The purpose of the Authority is to administer programs for low and moderate income households in Southeastern Utah. The Authority received federal funds from the Department of Housing and Urban (HUD) Development, United States Department of Agriculture Rural Development (USDA RD) and local management properties. The Authority is governed by a five-member Board of Commissioners, which is appointed by the Grand County Commissioners. The Board, in turn, elects a chairperson and employs an Executive Director to administer the affairs of the Authority.

The Authority present this discussion and analysis of its financial performance during the fiscal year end June 30, 2006 (FY2006), to assist the reader in focusing on significant financial issues and concerns. This discussion and analysis is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*, issued June 1999.

The Authority's FY2006 annual financial report consists of three parts:

- The management's discussion and analysis
- The basic financials statement (which include notes to those financial statements)
- Other required supplementary information that was sent to HUD related to our basic financial statements

The basic financial statements provide information about the Authority's overall financial position and results of operation. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets, the Statement of Revenues, Expenditures and Changes in Net Assets and the Statement of Cash Flows. The basic financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the basic financial statements.

The primary focus of the Authority's financial statements is on a single business-type activity that combines all programs administered by the Authority. This discussion and analysis is focused on the primary activities of the Authority.

FINANCIAL HIGHLIGHTS

Under GASB Statement No. 34, the Authority's single business-type activity financial statements for FY2006 report on all of the authority's assets, liabilities, revenues, expenses, and net assets under the program it administers. A summary of the current-year results in comparison with the prior year results follows:

- Net assets of the Authority increased \$61,990 as of June 30, 2006, from the prior year.
- Operating revenues of the Authority increased by \$216,646 over prior year results.
- The increase in cash and cash equivalents for the years was due to a developer's fee received and additional grant an increase from USDA Rural Development

AUTHORITY FINANCIAL STATEMENTS

The Authority is presenting its FY2006 discussion and analysis based on the financial results of its programs in three basic financial statements – the statement of net assets; the statement of revenues, expenditures and changes in net assets; and the statement of cash flows. The balance sheet reports all financial and capital assets of the Authority and is presented in a format where assets equal liabilities plus net assets, formerly known as fund equity. Net assets are broken down into the following three categories:

- *Net assets, invested in capital assets, net of related debt* consist of all capital assets net of accumulated depreciated, reduced by the outstanding balances of mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- *Restricted net assets* consist of assets that are restricted by the constraints placed on the asset by external parties, such as creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted net assets* consist of net assets that do not meet the definition of *net assets invested in capital assets, net of related debt or restricted net assets*.

The statement of revenues, expenditures and changes in net assets (similar to an income statement) includes operating revenues, such as rental income; operating expenses – such as administrative, utilities, maintenance, and depreciation; and non-operating revenues and expenses – such as investment income and interest expense. The statement's focus is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used for operating activities, capital and related financing activities, and investing activities.

These financial statements utilize the economic resources measurement focus and the full accrual basis of accounting. They report the Authority's net assets and changes in net assets in full compliance with GASB statement No. 34. Under the full accrual basis of accounting, revenues are recognized in the period they are earned and expenses in the period they are incurred.

The entity-wide presentation represents five different programs and activities. Most of these programs are financed by federal grants from HUD and USDA RD, rents, and other user charges resulting from operations of subsidized housing, by management fees, and by investment income and loan proceeds. In FY2006 the following programs make up a majority of the Authority's single business-type activities financial statements:

- *Section 8 Housing Choice Voucher* - This program is funded by HUD and is a subsidy program for very-low and low-income households seeking housing in the private rental market.
- *Rural Rental Housing Loans and Assistance Programs* – These programs are funded by USDA RD and provide funds for the purchase of property and subsidy for very-low, low and moderate income families seeking housing.
- *Public Housing Low Rent* – This program is funded by USDA RD and is a subsidy rent program for very-low, low and moderate income families seeking housing.
- *Public Housing Capital Funds* – This program is funded by HUD and provides funds for the maintaining of rental property owned and operated by the Authority for the purpose of offering housing to very-low, low and moderate income families.

Net Assets

The Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

Housing Authority of Southeastern Utah Statement of Net Assets

	2006	2005	Total Percentage Change
Current assets	\$ 178,015	\$ 104,708	70%
Restricted deposits	277,621	318,717	-13%
Fixed assets, net of depreciation	896,897	921,239	-3%
Total assets	\$ 1,352,533	\$ 1,344,664	1%
Current liabilities	\$ 305,433	\$ 354,034	-14%
Deposits and prepaid liabilities	8,983	7,308	23%
Noncurrent liabilities	926,797	949,733	-2%
Total liabilities	\$ 1,241,213	\$ 1,311,075	-5%
Investment in capital assets	\$ (54,367)	\$ (51,647)	5%
Unrestricted net assets	165,687	85,236	94%
Total net assets	\$ 111,320	\$ 33,589	231%

The Authority's total assets at June 30, 2006 were \$1,352,533, an increase of \$7,869 from June 30, 2005

Cash and Cash Equivalents

Total cash and cash equivalents increased by \$79,080 as of June 30, 2006, compared to June 30, 2005.

Accounts Payable, Accrued Liabilities and Deferred Revenue

Total accounts payable and accrued liabilities decreased by \$31,185, as of June 30, 2006, compared to June 30, 2005. Accounts payable to HUD decreased by \$14,816 as of June 30, 2006, which was due to the overpayment of HUD'S Section 8 Housing administrative payments during FY2005.

Net Assets

The Authority's net assets increased by \$61,990 during FY2005. At June 30, 2006, investments in capital assets comprised \$(54,367) of the Authority's total assets, while these assets carry related current and long-term debt of approximately \$951,264, which is approximately 76% of its total liabilities.

Revenues, Expenses and Changes in Net Assets

The results of operations for the Authority are presented below:

Housing Authority of Southeastern Utah Statement of Revenues, Expenditures and Changes in Net Assets

	2006	2005	Total Percentage Change
Operating revenues	\$ 877,410	\$ 645,023	36%
Operating expenses	(757,024)	(616,972)	23%
Operating income	120,386	28,051	329%
Nonoperating expenses	(42,655)	(35,152)	21%
Net income/(loss)	\$ 77,731	\$ (7,101)	-1195%

Operating revenues of the Authority's activities are generated principally from HUD operating grants. In FY2006, the Authority's revenues for its activities totaled \$861,669. Of this total, \$266,002 is from HUD operating grants. Operating expenses of the Authority's activities consist primarily of housing assistance payments. Operating expenses total \$757,024, of which \$247,597, was housing assistance payments.

FIXED ASSETS

The Authority's net fixed assets as of June 30, 2006 included land, buildings, and furniture and equipment that totaled \$1,105,816, most of which is comprised of rental units available for lease to low and moderate income residents. Fixed assets, net of depreciation, increased \$6,576 from the preceding year.

	2006	2005	Change
Land	\$ 121,053	\$ 121,053	\$ -
Building	953,037	953,037	\$ -
Furniture and equipment	31,726	25,150	\$ 6,576
Accumulated depreciation	(208,919)	(178,001)	\$ (30,918)
Net fixed assets	\$ 896,897	\$ 921,239	\$ (24,342)

CONTACTING AUTHORITY MANAGEMENT

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. Questions concerning this report or request for additional financial information should be directed to the Executive Director of the Housing Authority of Southeastern Utah in writing to 321 East Center Street, Moab, Utah 84532.

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Combined Statement of Net Assets
June 30, 2006

	2006	2005
ASSETS		
Current assets:		
Cash - unrestricted	\$ 170,233	\$ 91,153
Accounts receivable - other	7,782	13,555
Total current assets	<u>178,015</u>	<u>104,708</u>
Restricted assets:		
Cash - other restricted	268,233	310,078
Cash - tenants' security deposits	9,388	8,639
Total restricted assets	<u>277,621</u>	<u>318,717</u>
Noncurrent assets:		
Capital assets		
Land	121,053	121,053
Buildings and improvements	953,037	953,037
Furniture and equipment	31,726	25,150
Total capital assets	<u>1,105,816</u>	<u>1,099,240</u>
Less: accumulated depreciation	(208,919)	(178,001)
Net capital assets	<u>896,897</u>	<u>921,239</u>
TOTAL ASSETS	<u>1,352,533</u>	<u>1,344,664</u>
LIABILITIES		
Current liabilities:		
Accounts payable	6,727	-
Accounts payable - HUD	-	30,557
Tenants' security deposits	8,983	7,308
Accrued liabilities	15,938	-
Other current liabilities	258,301	300,324
Current portion of notes payable	24,467	23,153
Total current liabilities	<u>314,416</u>	<u>361,342</u>
Noncurrent liabilities:		
Notes payable - non current	926,797	949,733
Total noncurrent liabilities	<u>926,797</u>	<u>949,733</u>
TOTAL LIABILITIES	<u>1,241,213</u>	<u>1,311,075</u>
NET ASSETS		
Invested in capital assets, net of related debt	(54,367)	(51,647)
Unrestricted net assets	165,687	85,236
TOTAL NET ASSETS	<u>\$ 111,320</u>	<u>\$ 33,589</u>

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
**Combined Statement of Revenues, Expenditures,
and Changes in Net Assets**
For The Year Ended June 30, 2006

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Federal subsidies	\$ 661,291	\$ 559,969
Rents	63,984	72,396
Other	152,135	12,658
Total operating revenues	<u>877,410</u>	<u>645,023</u>
OPERATING EXPENSES		
Administrative	386,606	302,746
Utilities	14,840	9,847
Ordinary maintenance and operations	63,826	25,467
General	13,237	19,906
Housing assistance payments	247,597	228,391
Depreciation	30,918	30,615
Total operating expenses	<u>757,024</u>	<u>616,972</u>
Income from operations	<u>120,386</u>	<u>28,051</u>
NONOPERATING INCOME/(EXPENSE)		
Interest income	1,028	367
Interest expense	(43,683)	(35,519)
Total nonoperating income (expenses)	<u>(42,655)</u>	<u>(35,152)</u>
Net income (loss)	77,731	(7,101)
Net assets at beginning of year	33,589	40,690
Prior period adjustment	-	-
Net assets at end of year	<u>\$ 111,320</u>	<u>\$ 33,589</u>

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH
Combined Statement of Cash Flows
For The Year Ended June 30, 2006**

Cash Flows From Operating Activities

	2006	2005
Federal subsidies receipts	\$ 630,734	\$ 559,969
Rents received	69,757	71,249
Other receipts	152,135	20,205
Cash paid for administrative services	(370,668)	(302,747)
Cash paid for utilities	(14,840)	(9,847)
Cash paid for ordinary maintenance and operations	(63,826)	(25,467)
Cash paid for general and other expenses	(6,688)	(20,105)
Cash received for tenant security deposits	926	-
Cash paid for housing assistance	(247,597)	(234,041)
Net cash provided by operating activities	<u>149,933</u>	<u>59,216</u>

Cash Flows From Capital Financing Activities

Acquisition of capital assets	(6,576)	(6,160)
Retirement of long-term debt	(21,622)	(21,934)
Interest on long-term debt	(43,683)	(37,051)
Net cash used in capital financing activities	<u>(71,881)</u>	<u>(65,145)</u>

Cash Flows From Investing Activities

Interest on investments	1,028	367
Net cash provided by investing activities	<u>1,028</u>	<u>367</u>

Net increase in cash and cash equivalents	79,080	(5,562)
Cash and cash equivalents at beginning of year	91,153	96,715
Cash and cash equivalents at end of year	<u>\$ 170,233</u>	<u>\$ 91,153</u>

**Reconciliation of operating income to net cash used
by operating activities:**

Income from operations	\$ 120,386	\$ 28,051
Adjustments to reconcile operating income to Net cash provided by operating activities		
Depreciation	30,918	30,615
(Increase) Decrease in:		
Restricted cash	41,845	(191,629)
Accounts receivable - other	5,773	6,399
Security deposits	(749)	515
Increase (Decrease) in:		
Accounts payable	6,727	-
Accounts payable HUD	(30,557)	(5,650)
Tenant security deposits	1,675	(435)
Accrued liabilities	15,938	191,350
Other current liabilities	(42,023)	-
Net cash provided by operating activities	<u>\$ 149,933</u>	<u>\$ 59,216</u>

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Notes to Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND HISTORY

The Housing Authority of Southeastern Utah (the Authority) was created under the laws of the state of Utah, and certified by the United States Department of Housing and Urban Development (HUD). The purpose of the Authority is to administer programs in the Grand and San Juan County, Utah area under the Housing Act of 1937, as amended. The Federal Government subsidizes these programs by direct awards through HUD and U.S.D.A. Rural Development (RD), and pass through awards through other state and local government agencies.

FINANCIAL REPORTING MODEL

The Authority has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, *Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The significant changes to these statements are as follows:

1. Presentation of management’s discussion and analysis.
2. The term ‘retained earnings’ is replaced by ‘net assets’.
3. The statement of cash flows is presented on the direct method.

FINANCIAL REPORTING ENTITY

The Governmental Accounting Standards Board (GASB) has issued Statement No. 14, “The Financial Reporting Entity”, which describes those entities which are considered component units for financial reporting purposes. Management of the Authority and Southeastern Utah have determined that the Authority is not a component unit of the County, or any other government entity under the criteria of GASB Statement No. 14.

INTER-FUND TRANSACTIONS

Inter-fund payables and receivables as of June 30, 2006 totaling \$36,905 have been eliminated from the combined balance sheet.

BASIS OF PRESENTATION – FUND ACCOUNTING

In order to insure observance of limitations and restrictions placed on the use of resources available to the Authority, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which appropriations, grants or contracts for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives.

In accordance with HUD prescribed accounting practices, the Authority has adopted the Statement of Government Accounting Standards (SGAS) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority has elected to apply all applicable FASB pronouncements and Accounting Principle Board (APB) opinions issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

BASIS OF ACCOUNTING

The Authority prepares its basic financial statements using the accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America. The accrual basis of accounting recognizes revenues at the time they are earned. Expenditures are recorded when incurred

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Notes to Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

CASH AND CASH EQUIVALENTS

The Authority considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2006 consist of cash on hand, demand deposits and savings deposits. Restricted deposits are not considered cash equivalents due to their restrictions as to availability and use in operations.

FIXED ASSETS

Fixed assets are carried at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3- 40 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and improvements are capitalized.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACCRUED COMPENSATED ABSENCES

The balance of accrued liabilities at June 30, 2006, of \$15,938 consists of current accrued compensation.

NOTE 2 – DEPOSITS

Deposits for the Authority are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the ACT") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the Authority's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council. As of June 30, 2006, \$130,633 of the Authority's bank balances of \$485,954 was uninsured and uncollateralized.

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Notes to Financial Statements
June 30, 2006

NOTE 2 – DEPOSITS - CONTINUED

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity of all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations, to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Rule 2 of the Utah Money Management Council does not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy for reducing its exposure to Credit Risk is to comply with the Act as previously discussed.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority's policy for reducing this risk of loss is to comply with the rules of the Council. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operations for less than 3 years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 of the Council limits investment concentration in various other types of investments

NOTE 3 – ECONOMIC DEPENDENCY

A substantial portion of the Authority's revenue comes from U.S. Department of Housing and Urban Development. Programs operated by the Housing Authority depend upon continued funding by the U.S. Government.

NOTE 4 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Authority to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies, which the Authority pays in the event of any loss. The Authority has also purchased a workers' compensation policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the year ended June 30, 2006.

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Notes to Financial Statements
June 30, 2006

NOTE 5 – SCHEDULE OF CHANGES IN CAPITAL ASSETS

	Balance 06/30/05	Additions	Retirements	Transfers	Balance 06/30/06
Land	\$ 121,053	\$ -	\$ -	\$ -	\$ 121,053
Building	953,037	-	-	-	953,037
Furniture & equipment - administrative	25,150	6,576	-	-	31,726
Total fixed assets	<u>\$ 1,099,241</u>	<u>\$ 6,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,105,816</u>
Accumulated depreciation	(178,001)	(30,918)	-	-	(208,919)
Net fixed assets	<u>\$ 921,239</u>				<u>\$ 896,897</u>

NOTE 6 – LONG-TERM LIABILITIES

Long term debt consists of the following:

- A mortgage note payable to USDA-Rural Development (RD) on the Virginian apartment complex in the amount of \$200,266 collateralized by a first deed of trust on land and building with a carrying value of \$726,161, bearing interest at 8.0% per annum. This contract is subject to an interest credit agreement with RD, which reduces the effective rate to 1% per annum. During the year ended June 30, 2006 \$11,583 was subsidized by the credit agreement. The mortgage note is due October, 2017.
- A mortgage note payable to USDA-Rural Development (RD) on the Business Activity Fund in the amount of \$183,321 collateralized by the land and building, bearing interest at 4.5% per annum. The mortgage note is due June, 2034.
- A mortgage note payable to the State of Utah Division of Finance on the Virginian apartment complex in the amount of \$522,717, collateralized by a second deed of trust on land and building with a carrying value of \$726,161, bearing interest at 3.0% per annum. The mortgage note is due August, 2038.
- A mortgage note payable to the State of Utah Division of Finance on the Virginian apartment complex in the amount of \$45,000, collateralized by a third deed of trust on land and building with a carrying value of \$726,161, bearing interest at 0.0% per annum. The entire unpaid principal balance is due and payable in full upon sale, foreclosure, refinancing, assignment or any disposition of the property.

Future maturities of long-term debt are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 24,467	\$ 39,336
2008	25,862	37,940
2009	27,361	36,452
2010	28,941	34,862
2011	30,621	33,162
2012-2035	814,012	432,388
Total future maturities	<u>\$ 951,264</u>	<u>\$ 614,140</u>

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Notes to Financial Statements
June 30, 2006

NOTE 7 – RELATED PARTY TRANSACTIONS

The Authority is the managing member of "Crown at Holyoak in Sage Valley, LLC" and of "Crown at Rim Hill, LLC". During the year ended June 30, 2006 the Authority received management fees in the total amount of \$6,720.

NOTE 8 – INTERPROGRAM RECEIVABLES AND PAYABLES

The Authority has interprogram receivables and payables totaling \$36,905, which have been eliminated on the basic financial statements.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

In the prior period the Authority had improperly recorded interest expense, on a zero interest bearing note, in the amount of \$1,532 on the Statement of Revenues, Expenses and Changes in Net Assets and accounts receivable in the amount of \$24,975 as an asset on the Statement of Net Assets. An adjustment was made in the current year to report the notes payable and accounts receivable on the Statement of Net Assets and reduce the aforementioned expense account. The result of the adjustment is a decrease in current assets of \$26,327, an increase in net income of \$1,532 and a decrease in net assets of \$24,795 for 2005.

NOTE 10 – OTHER CURRENT LIABILITIES

The other current liabilities consist of Mutual Self-Help pass through money and FSS Escrows in the amounts of \$248,197 and \$10,104, respectively.

Supplemental Information

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH
Combining Statement of Net Assets
June 30, 2006**

Schedule 1

FDS Line Item		Section 8 Rental Vouchers	Mutual Self-Help Technical Assistance Fund	Rural Rental Assistance Payments	Business Activities	Combined Balance
#	Account Description	14,871	10,420	10,427		
	ASSETS					
	Current Assets					
	Cash:					
111	Cash - Unrestricted	\$ 103,420	\$ 47,443	\$ 19,370	\$ -	\$ 170,233
113	Cash - Other Restricted	10,517	248,177	9,539	-	268,233
114	Cash - Tenants' Security Deposits	-	-	9,388	-	9,388
100	Total Cash	<u>113,937</u>	<u>295,620</u>	<u>38,297</u>	<u>-</u>	<u>447,854</u>
	Receivables:					
124	Accounts Receivable - Other Government	-	-	5,551	-	5,551
126	Accounts Receivable - Tenants - Dwelling Rents	-	-	2,231	-	2,231
120	Total Receivables, net of allowances for doubtful accounts	<u>-</u>	<u>-</u>	<u>7,782</u>	<u>-</u>	<u>7,782</u>
144	Interprogram Due From	11,791	19,375	-	5,739	36,905 *
150	Total Current Assets	<u>125,728</u>	<u>314,995</u>	<u>46,079</u>	<u>5,739</u>	<u>492,541</u>
	Noncurrent Assets					
	Fixed Assets:					
161	Land	-	-	100,000	21,053	121,053
162	Buildings	-	-	794,092	158,945	953,037
164	Furniture, Equipment & Machinery - Administration	14,257	7,606	574	9,289	31,726
166	Accumulated Depreciation	(14,257)	(2,346)	(168,505)	(23,811)	(208,919)
160	Total Fixed Assets, Net of Accumulated Depreciation	<u>-</u>	<u>5,260</u>	<u>726,161</u>	<u>165,476</u>	<u>896,897</u>
190	TOTAL ASSETS	<u>\$ 125,728</u>	<u>\$ 320,255</u>	<u>\$ 772,240</u>	<u>\$ 171,215</u>	<u>\$ 1,389,438</u>
	LIABILITIES AND NET ASSETS					
	LIABILITIES					
	Current Liabilities					
312	Accounts Payable <= 90 Days	\$ 6,727	\$ -	\$ -	\$ -	\$ 6,727
322	Accrued Compensated Absences	-	15,938	-	-	15,938
331	Accounts Payable - HUD PHA programs	-	-	-	-	-
341	Tenant Security Deposits	-	-	8,983	-	8,983
345	Other Current Liabilities	10,104	248,197	-	-	258,301
347	Interprogram Due To	19,375	9,166	8,364	-	36,905 *
348	Loan Liabilities - Current	-	-	20,895	3,572	24,467
310	Total Current Liabilities	<u>36,206</u>	<u>273,301</u>	<u>38,242</u>	<u>3,572</u>	<u>351,321</u>
	Non-Current Liabilities					
351	Long-Term Debt, Net of Current - Capital Projects/Mortgage	-	-	747,048	179,749	926,797
350	Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>747,048</u>	<u>179,749</u>	<u>926,797</u>
300	TOTAL LIABILITIES	<u>36,206</u>	<u>273,301</u>	<u>785,290</u>	<u>183,321</u>	<u>1,278,118</u>
	NET ASSETS					
508.1	Invested in Capital Assets, Net of Related Debt	-	5,260	(41,782)	(17,845)	(54,367)
512.1	Unrestricted Net Assets	89,522	41,694	28,732	5,739	165,687
513	TOTAL NET ASSETS	<u>89,522</u>	<u>46,954</u>	<u>(13,050)</u>	<u>(12,106)</u>	<u>111,320</u>
600	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 125,728</u>	<u>\$ 320,255</u>	<u>\$ 772,240</u>	<u>\$ 171,215</u>	<u>\$ 1,389,438</u>

* Not included on the combined statement of net assets.

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
**Combining Statement of Revenues, Expenditures, and
Changes in Net Assets**
For the Year Ended June 30, 2006

Schedule 2

FDS Line Item #	Account Description	Section 8 Rental Vouchers 14.871	Mutual Self-Help Technical Assistance Fund 10.420	Rural Rental Assistance Payments 10.427	Business Activities	Combined Balance
	REVENUE					
	Tenant Revenue:					
703	Net Tenant Rental Revenue	\$ -	\$ -	\$ 63,984	\$ -	\$ 63,984
705	Total Tenant Revenue	-	-	63,984	-	63,984
706	HUD PHA Grants	281,743	-	-	-	281,743
708	Other Governmental Grants	-	308,000	71,548	-	379,548
711	Investment Income - Unrestricted	117	449	162	300	1,028
715	Other Revenue	46,000	-	-	106,135	152,135
700	TOTAL REVENUE	327,860	308,449	135,694	106,435	878,438
	EXPENSES					
	Administrative:					
911	Administrative Salaries	-	216,440	4,882	17,034	238,356
912	Auditing Fees	500	4,440	3,523	887	9,350
916	Other Operating - Administrative	13,176	63,484	19,820	42,420	138,900
	Utilities:					
932	Electricity	1,556	2,319	9,599	1,366	14,840
	Ordinary Maintenance & Operation:					
941	Ordinary Maintenance & Operation - Labor	-	-	17,031	-	17,031
942	Ordinary Maintenance & Operation - Materials & Other	64	15,128	18,902	2,067	36,161
943	Ordinary Maintenance & Operation - Contract Costs	-	-	5,513	5,121	10,634
	General Expenses:					
961	Insurance Premiums	-	-	13,237	-	13,237
967	Interest Expense	-	-	35,350	8,333	43,683
969	TOTAL OPERATING EXPENSES	15,296	301,811	127,857	77,228	522,192
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	312,564	6,638	7,837	29,207	356,246
	Other Expenses:					
973	Housing Assistance Payments	247,597	-	-	-	247,597
974	Depreciation Expense	-	1,315	21,666	7,937	30,918
900	TOTAL EXPENSES	262,893	303,126	149,523	85,165	800,707
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	64,967	5,323	(13,829)	21,270	77,731
1103	Net Assets at Beginning of Year	50,882	41,631	(753)	(33,376)	58,384
1104	Transfers and Adjustments	(26,327)	-	1,532	-	(24,795)
	Net Assets at End of Year	\$ 89,522	\$ 46,954	\$ (13,050)	\$ (12,106)	\$ 111,320

Baird, Rasmussen Associates, PC

Certified Public Accountants and Business Advisors

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Housing Authority of Southeastern Utah
Moab, Utah

We have audited the basic financial statements of the Housing Authority of Southeastern Utah (the Authority) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of the management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2, 06-3 and 06-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 06-2 and 06-4.

To the Board of Commissioners
Housing Authority of Southeastern Utah

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baird, Rasmussen & Associates, P.C.

Baird, Rasmussen & Associates, P.C.
Bountiful, Utah
September 26, 2006

Baird, Rasmussen Associates, PC

Certified Public Accountants and Business Advisors

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Housing Authority of Southeastern Utah
Moab, Utah

Compliance

We have audited the compliance of Housing Authority of Southeastern Utah (the Authority), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in item 06-2 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding the recording of income within the accounting system applicable to its Rural Rental Assistance agreement. As described in item 06-4 in the accompanying schedule of findings and questioned costs, the Authority did not comply with the requirements regarding the recording of the cash and corresponding liability within the accounting system applicable to its Mutual Self-Help agreement. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to those programs.

In our opinion, except for the items of noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In

To the Board of Commissioners
Housing Authority of Southeastern Utah

planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2, 06-3 and 06-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baird, Rasmussen & Associates, P.C.

Baird, Rasmussen & Associates, P.C.
Bountiful, Utah
September 26, 2006

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

<u>Federal Assistance Programs Agency/Program Grant Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing & Urban Development (HUD)		
Section 8 Housing	14.871	\$ 281,743
U.S. Department of Agriculture		
Rural Rental Housing Loans	10.415	200,226
Rural Rental Housing Loans— Interest Subsidy	10.415	11,583
Rural Self-Help Housing Technical Assistance	10.420	308,000
Rural Rental Assistance Payments	10.427	59,966
Community Facility Loan	10.766	183,321
 Total expenditures of federal awards		 <u>\$ 1,044,839</u>

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of Southeastern Utah and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Status of Findings and Questioned Costs
For the year ended June 30, 2006

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Non compliance material to financial statements noted?

☒ Yes ☐ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs

CFDA Number(s)

14.871

10.415

Name of Federal Program or Cluster

Section 8 Housing Choice Vouchers

Rural Rental Housing Loans

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Schedule of Findings and Questioned Costs
June 30, 2006

Finding 06-01 Tracking of security deposits

Condition: Prior to the audit, the amount of security deposit payables did not match the detailed ledger of security deposits. The bank account related to the security deposit payable has not been reconciled to the payable, on the detailed ledger.

Criteria: Subsidiary detailed records should be reconciled to the financial statement accounts.

Cause: The accounting personnel did not have adequate training, knowledge and experience to properly record the accounting activity.

Effect: A lack of controls over tenant security deposits. There was uncertainty as to whether the security deposit liability was fully funded and whether the future liability requirement could be met.

Recommendation: The Authority should reconcile the security deposit bank account, general ledger and detail ledger on a regular basis to ensure that the balance is correct.

Finding 06-02 Failure to record grant income correctly

Condition: Prior to the audit, the Authority had not recorded the interest subsidy grant income received from RDA. RDA rental assistance was understated by the monthly payments to RDA on the Rental Housing Loan.

Criteria: All grant revenues must be recorded and accounted for by the grant recipient.

Cause: Grant income was recorded on a cash basis. The authority and the fee accountant failed to recognize that the loan payments, including interest, were being deducted from the monthly rental assistance payments. The authority was unaware that the interest subsidy grant was effective.

Effect: The Authority materially misstated the grant revenues received and the interest expense for the year ending June 30, 2006.

Recommendation: The Authority should record all grant income, whether the Authority physically received the money or whether the subsidy is netted against a loan payment

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Schedule of Findings and Questioned Costs - continued
June 30, 2006

Finding 06-03 Improper accounting

Condition: The fee accountant recorded a significant portion of the expenses to a Sundry/Miscellaneous account. They also provided year end compiled financial statements that were not in balance.

Criteria: Expenses should be properly recorded and financial statements should balance.

Cause: The fee accountant is reprocessing all financial transactions. The accountant is then compiling the financials hastily and incorrectly.

Effect: Monthly and year end financial statements are not properly stated; hence, the Board and management are not receiving an accurate picture of the financial operations on a regular basis

Recommendation: Update the accounting software used by management and provide the outside accountant with a backup copy on a monthly basis. The accountant can review the general ledger to determine that the data is entered correctly and advise the Authority on any adjustments needed.

Finding 06-04 Failure to record cash and liabilities

Condition: The Authority understated the cash account and the corresponding liability for the Mutual Self-Help program.

Criteria: The Authority is to record cash and matching liability accounts for the cash received for the Mutual Self-Help program.

Cause: The Authority was unaware of the proper accounting required for the Mutual Self-Help program.

Effect: Cash and liability accounts were materially understated.

Recommendation: The Authority needs to reconcile the bank, cash, and liability accounts related to the Mutual Self-Help program on a monthly basis and ensure that the amounts are properly recorded.

**HOUSING AUTHORITY OF
SOUTHEASTERN UTAH**
Summary Schedule of Prior Audit Findings
June 30, 2006

Finding 05-01 Understatement of cash and liabilities

Condition: The Authority did not record a cash account of \$222,524 and the corresponding liability for the Mutual Self-Help program.

Criteria: The Authority is to record cash and matching liability accounts in their accounting system for the cash received for the Mutual Self-Help program and reconcile it monthly.

Cause: The Authority was unaware of the funds available for use for the program.

Effect: The Authority understated cash and accrued liabilities by \$222,524.

Recommendation: Management needs to oversee the accounting system and make sure all accounts are properly recorded.

Status: This finding is considered outstanding

Baird, Rasmussen Associates, PC

Certified Public Accountants and Business Advisors

Auditor's Report on Utah State Legal Compliance

To the Board of Commissioners
Housing Authority of Southeastern Utah
Moab, Utah

We have audited the basic financial statements of the Housing Authority of Southeastern Utah (the Authority), for the year ended June 30, 2006, and have issued our report thereon dated September 26, 2006. Our audit included test work on the Authority's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Cash Management
Other Compliance Requirements

The Authority did not receive any major or non-major State grants during the year ended June 30, 2006.

The management of the Authority is responsible for the Authority's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, the Authority complied, in all material respects with the general compliance requirements identified above for the year ended June 30, 2006.

Baird, Rasmussen & Associates, P.C.

Baird, Rasmussen & Associates, P.C.
Bountiful, Utah
September 26, 2006